

Service Date: August 14, 1997

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)UTILITY DIVISION
of the Mountain Water Company for)
Authority to Increases Rates and)DOCKET NO. D96.6.97
Charges for Water Service to its)ORDER NO. 5923b
Superior Division)

ORDER APPROVING STIPULATED RATE SETTLEMENT

BACKGROUND

1. Mountain Water Company (Mountain Water) filed an application on June 5, 1996 with the Montana Public Service Commission (Commission) for authorization to increase rates for water service to its customers in Superior, Montana. Mountain Water requested an increase of \$105,852 in annual revenues, for a 109.5226 percent rate increase. Mountain Water calculated its total revenue requirements for test year 1995 to be \$265,026, compared with the annual revenues it had collected of \$ 159,174.
2. The Montana Consumer Counsel (MCC) intervened on behalf of ratepayers.
3. Mountain Water also filed an application for an interim increase in rates of 24.932 percent, equaling a revenue increase of \$39,935. The interim rate request included booked expenses of the utility and additional adjustments not accepted in previous Commission orders. Among these adjustments were projected insurance cost increases, increased main office expenses, and power cost increases

attributed to a Montana Power Company rate increase.

4. In 1995 the Commission had conducted concurrent public hearings on a complaint filed by a number of customers in Docket No. 94.12.62 and Mountain Water's rate increase application in Docket No. 94.10.46. After the hearings and in response to the complaint of the members of the public, Mountain Water and the City of Superior jointly began to develop and prioritize a capital improvement program to satisfy fire flow and pressure problems. The City convened public meetings between Mountain Water and the City, which were well attended by the public. Commissioner Bob Rowe, representing District No. 5, including Superior, was present to explain the role of the Commission. The City agreed to support a planned service improvement program, in connection with the present rate increase application. Because of design changes Mountain Water experienced substantial delays in obtaining the necessary approvals for construction of the post test year plant additions from the Montana Department of Environmental Quality and the Forest Service.

5. On November 8, 1996 Mountain Water and MCC filed a Stipulation, in conjunction with Mountain Water's motion, requesting that the Commission grant an amended interim increase. As a result of corrections to the original application for the Superior Division and adjustments made in its Missoula Division, Mountain Water proposed an interim increase in rates of 26.505 percent, for a revenue increase of \$42,275, or \$2,340 above the original interim rate increase request. The interim request excluded post test year plant additions. Because of the delay in construction, Mountain Water and the MCC asked that the Commission defer consideration of the post test year plant additions and vacate the hearing date of December 18, 1996 to allow

consideration of the post test year plant additions after completion.

6. On November 15, 1996 the Commission issued a Notice of Stipulation and Opportunity to Comment, and published the Notice in the Missoulian, Missoula, Montana, and the Mineral Independent, Superior, Montana. The Commission did not receive any comments.

7. The Commission issued Interim Rate Order, Order No. 5923a, on December 31, 1996, granting Mountain Water's amended request for interim rate relief in Superior, incorporating the adjustments made for Mountain Water, Missoula Division. (Docket No. D96.4.61, Order Approving Stipulation and Settlement, Order No. 5910d.) For interim purposes Mountain Water requested an overall rate of return of 10.407 percent (compared to its realized rate of return of 2.491 percent), recognizing Mountain Water's most recent cost of debt capital of 9.07 percent and a cost of equity of 11.5 percent. As calculated, the interim rates were expected to result in revenues of \$201,771, for a 26.505 percent increase.

8. At Mountain Water's request, the 26.505 percent increase was implemented using the rate design requested in the original application. To avoid rate fluctuations, Flat Rates other than irrigation increased 47.8308 percent, with irrigation remaining unchanged, for an overall increase to flat rate revenues of 32.3132 percent. Overall, metered rates increased 14.8944 percent while Public Fire Protection remained unchanged, as did the low income discount.

9. On April 29, 1997 Mountain Water and MCC filed a Stipulation in which they agreed that a general rate increase of \$105,852 as originally requested, would be a fair

settlement of the application. Mountain Water had completed the capital improvement program, as modified, working with the City of Superior. The parties agreed that the actual cost of the post-test year plant additions exceeded the budgeted amount in the original application. If Mountain Water had anticipated the additional capital improvements before the filing, it could have requested a higher rate increase, determining the cost of service using the total expenditures on the post test year plant additions.

10. In the Stipulation the Parties requested that the stipulated rate increase be unattributed, except as necessary to provide continuity for future rate orders, which included the following: (1) For tracking purposes, an authorized level of \$2,045 for expenses incurred under § 69-4-511, MCA; (2) For amortization purposes, over a two year period, a net rate case expense of \$914; and (3) OPEB expense, including the amortization, as proposed by MCC in this Docket. Further, Parties agreed that Mountain Water should be authorized to track, between rate cases, expenses incurred under § 69-4-511, MCA, as the Commission authorized for Mountain Water's Missoula Division. (A privately own water utility, unlike a municipal utility, is responsible for the costs of maintaining service pipelines from the main to the owner's property line, except for the costs for pipe and supplies to maintain the service lines.) The Parties also stipulated to a low-income discount in the amount of \$4.00 per month as was also authorized for the Missoula Division, an increase from the previous discount of \$3.00. MCC neither supported nor opposed the discount.

11. The Commission issued and published a Notice of Stipulated Rate Settlement Hearing, first scheduling the hearing for July 2, 1997 in Superior; due to a scheduling

conflict, the hearing was rescheduled and renoticed. On July 14, 1997 the Commission conducted a public hearing on the application and the Stipulation between Mountain Water and MCC. Commissioner Bob Rowe presided. No members of the public appeared to testify at either the technical hearing at 3:00 p.m. or the evening hearing held for the benefit of the public, nor did the City of Superior have a representative present. The hearing was an opportunity for the public to air general concerns on Mountain Water and its future improvement plans and rate design and to discuss the specific issues in the rate case. Mountain Water and MCC presented testimony in support of the Stipulation and the full rate increase requested in the initial application. Parties waived the right to a Proposed Order.

FINDINGS OF FACT

Summary of Testimony

12. Arvid Hiller, Vice President and General Manager of Mountain Water Company, appeared and testified in support of the application. He first summarized the dialog with the City of Superior. After the filing for test year 1995 there was a fire in Superior that consumed a local establishment, partly because the fire flows were inadequate. In the past, the customers in Superior and the City had asked Mountain Water to hold back on investment to hold down rate increases. In the 1980's the economy was down and the citizens could not afford higher rates. Mountain Water, on discovering the low fire flow problems, talked to the City outside the rate-making process, in public hearings with MCC and Commissioner Rowe and in lengthy town meetings. Mountain Water explained how rates are set and why expenses go up. The citizens preferred that the rates not go up, but they wanted capital

improvements to improve fire flows.

13. As a result of these meetings, Mountain Water put together a five year plan to present to the town council, but the council had difficulty committing to a long term plan. After the town meeting, Mr. Hiller talked to Mayor Gordon Hendrick about the possibility of proceeding on an annual basis, with guidance from the council. The council voted to support the first phase to enhance fire flows. After the State Water Quality Bureau determined that Flat Creek was a ground water supply not requiring filtration, the design changed, along with the cost estimates. The ability to use Flat Creek as a gravity supply allowed for redesign. Mountain Water placed a 25,000 gallon storage tank in the Flat Creek area. The projects also included (1) an infiltration gallery, secured against contamination by replacing the wooden pipe; and (2) downstream, a 400,000 tank, chlorination building and telemetry, which can be monitored and controlled at the office in Missoula.

14. Mr. Hiller stated that the town council voted to support future plans to phase in capital improvements, including 4,000 feet of main enlarged from 6 inches to 12 inches and 6,000 feet of 10 or 12 inch new main transmitting over the river to the east end of Superior. There will also be some additional ties and slight improvements to the west end and the main on Mullan Road on the north side of the river. These improvements will cost about \$500,000 in combination in the 1997 test year. In addition to improved fire flows for the town which will benefit the residents, residential customers will see improvement due to eliminating constrictions, particularly on the east end of town. There is generally less fluctuation in the entire system, and better storage at Flat Creek with the gravity flow substantially reduces pumping costs.

15. On the issue of rate design, Mr. Hiller testified that the town wants the fire hydrant rates to remain fixed, resulting in higher rates for the residential service. Mountain Water may ask the town to reevaluate this position in the 1997 test year application for a rate increase to cover the additional capital improvements.

16. John Kappes also testified on behalf of Mountain Water as its coordinator of rates and person in charge of financial and strategic planning. For Mountain Water, Exhibit 2, he explained that the tariff sheets had minor changes from those filed with the stipulation. The sheet numbering was different as a result of the interim rate increase; number 52 was inadvertently left out of the application; Number 54, line 4, contained a corrected amount. Exhibit 3 demonstrated a reconciliation of the changes throughout discovery to the stipulation with MCC. Mr. Kappes testified that Mountain Water had added one new hydrant since the application. The rate case expense was decreased as a result of the stipulation, and the purchase power expense was reduced as a result of using Flat Creek water and its gravity flow, with the additional storage. Mountain Water's actual capital improvements were \$62,000 greater than the estimated \$ 132,000.

17. Frank Buckley, Rate Analyst for the Montana Consumer Counsel, testified that it was his opinion that the stipulated settlement was a just and reasonable resolution of the Docket.

18. The Commission finds that the Stipulation between Mountain Water Company and the Montana Consumer Counsel is a just and reasonable resolution of the application for a rate

increase in this Docket. Mountain Water has made a concerted effort to work with the town of Superior to improve its mains for fire flows and its storage for reduced purchase power expense. Mountain Water has made improvements in excess of those requested in the application, but the Commission cannot go beyond the initial request in its order on this Docket. Although no representatives of the town or members of the public appeared and testified, the record supports a finding that the City of Superior has worked with Mountain Water to realize needs of its residents for fire protection and storage at a reasonable cost.

CONCLUSIONS OF LAW

1. The Mountain Water Company is a public utility furnishing water service to customers in the Superior, Montana area. As such, it is subject to the supervision, regulation and control of this Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).

2. The Commission concludes that the approval of the stipulated rate increase as set forth in this Order is just and reasonable.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. Mountain Water Company is hereby granted authority to implement a general rate increase for its customers in Superior, Montana, designed to generate additional total annual revenues in the amount of \$105,852 as originally requested.

2. Mountain Water Company shall file revised tariff schedules to all services, except public fire protection customers. Mountain Water will establish a new tariff for Private Fire Protection Service, and a new low income discount of \$4.00, in accordance with the discount authorized for Mountain Water's Missoula Division. Tariffs shall be effective for service on or after September 1, 1997.

DONE IN OPEN SESSION AT HELENA, MONTANA THIS 12th day of August, 1997 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.